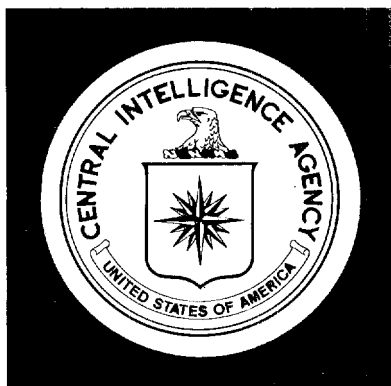


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ISRAEL-LEBANON-SYRIA: Tel Aviv launched the expected retaliatory raid for the fedayeen attack on Qiryat Shemona into southern Lebanon last night. Israeli infantry moved across the border and into six Lebanese villages. The troops withdrew after a few hours during which they blew up a number of houses allegedly belonging to the fedayeen or their sympathizers. The Israeli response was not as harsh as the Lebanese had feared, presumably because of Tel Aviv's concern over the fate of two Israeli pilots held in Lebanon and the effect a harsh retaliatory strike might have on current peace negotiations.

Military authorities in Tel Aviv asserted that a ten-man Syrian commando group crossed into Israeli-occupied territory and attempted to recapture a strategic post overlooking Israeli positions. They claimed that artillery fire was successful in forcing the Syrians to withdraw. Last Saturday, the Israelis had to use air strikes to dislodge a 40-man Syrian unit in the same area.

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The daily exchanges of fire along the battle line, the Syrian ground probes of Israeli positions, and the recent terrorist attack on Qiryat Shemona are keeping forces on both sides on edge.

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*ISRAEL: President Katzir will meet separately tomorrow with leaders of the Alignment and Likud blocs to sound them out regarding a candidate who might attempt to form a new cabinet. No one is likely to emerge until the Alignment decides on a successor to Prime Minister Meir, a process that may take some time.

Mrs. Meir's Labor Party Central Committee will meet next week to consider candidates to head a new government. The leading contenders are Finance Minister Sapir, Justice Minister Zadok, Minister of Labor Rabin, and Haifa Mayor Almogi.

The Labor leadership is divided over whether to attempt to form a new government now or to seek elections. Labor will most likely first attempt the former, but two or three weeks may pass before it becomes clear whether this can be done.

Elections could probably not be held before August unless the Knesset--which is not scheduled to resume its regular session until after the Passover recess ends on May 6--amends the election law that requires a 100-day period between dissolution of parliament and the elections. In any event, the Alignment may seek to postpone elections until October, as Sapir has already suggested, to give it time to get its own house in order and to rebuild some of its lost popularity.

If the decision is for new elections, Prime Minister Meir's caretaker government might well remain in office until elections are held and a new cabinet is formed. Since a caretaker government cannot be ousted by a Knesset vote of no confidence, Mrs. Meir's interim government paradoxically may enjoy a greater degree of stability than her previous one. This could allow her government again to devote more attention to Middle East peace issues, even though it may believe that its ability to make far-reaching agreements is limited. [REDACTED]

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*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

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SYRIA-USSR: President Asad concluded his talks with Soviet leaders yesterday on a note of "cordiality and mutual understanding," according to Tass. Both parties reaffirmed their determination to continue to seek a "lasting and just peace" in the Middle East based on the liberation of all occupied Arab territory and the restoration of the "legitimate rights of the Arab people of Palestine." Asad is scheduled to leave the Soviet Union for Damascus today.

Both the timing and the brevity of Asad's stay suggest that he may have accepted Moscow's invitation mainly to assuage Soviet sensitivities about the Washington disengagement talks and to take advantage of the current strains in Soviet-Egyptian relations.

In sharp and perhaps deliberate contrast to Egyptian President Sadat's recent public criticism of Soviet policy, Asad was extremely complimentary to his hosts. At a banquet in his honor Thursday evening, Asad said Syria was eager to expand cooperation with the Soviet Union and to strengthen the two countries' friendship. In addition, he thanked the Soviets for their "constant support" of Syria's objectives in the struggle against Israel. The rest of the speech was standard fare, with Asad sternly warning that the October war was not yet over and would continue until the Israelis withdraw from all Arab territory occupied in 1967 and the full rights of the Palestinians were restored.

Moscow gave Asad red-carpet treatment, and the three top Soviet leaders were present for the talks. At a luncheon speech yesterday, President Podgorny referred to agreements with Syria. No details are available, but the diplomatic community in Moscow has received reports that the Syrians will get a major new economic commitment from the Soviets and also a pledge to provide new sophisticated military equipment. A communiqué has been approved, although it will probably not be issued until Asad leaves.

(continued)

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In his speech Thursday night, Brezhnev made no effort to hide his displeasure with Egyptian and US diplomacy. Referring to the bilateral disengagement negotiations, Brezhnev criticized the "ersatz-plans," which he alleged are aimed at replacing an overall settlement with "partial" agreements. He stressed once again that the Geneva conference had been set up as the authoritative international forum and that a settlement can only be worked out there.

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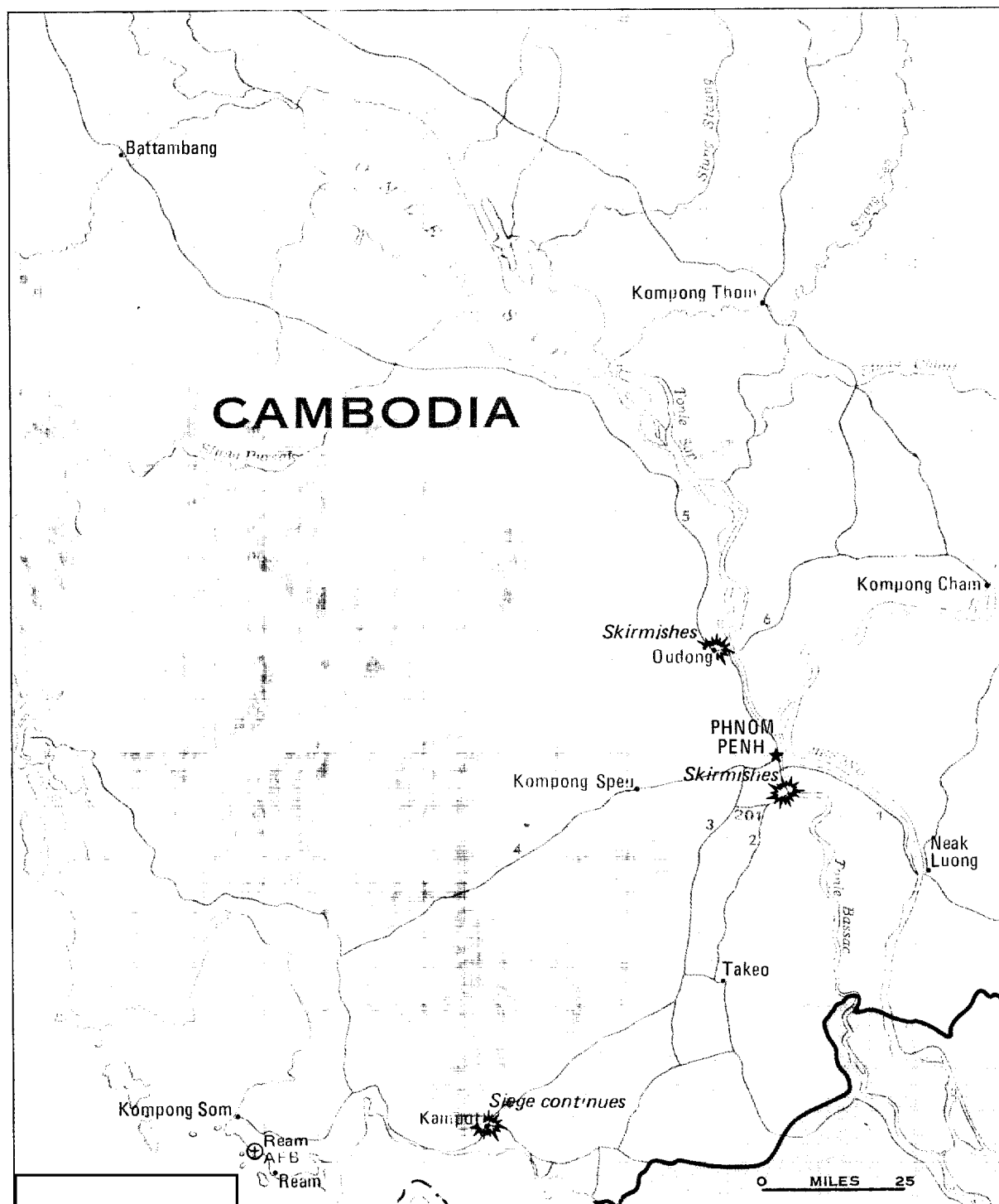
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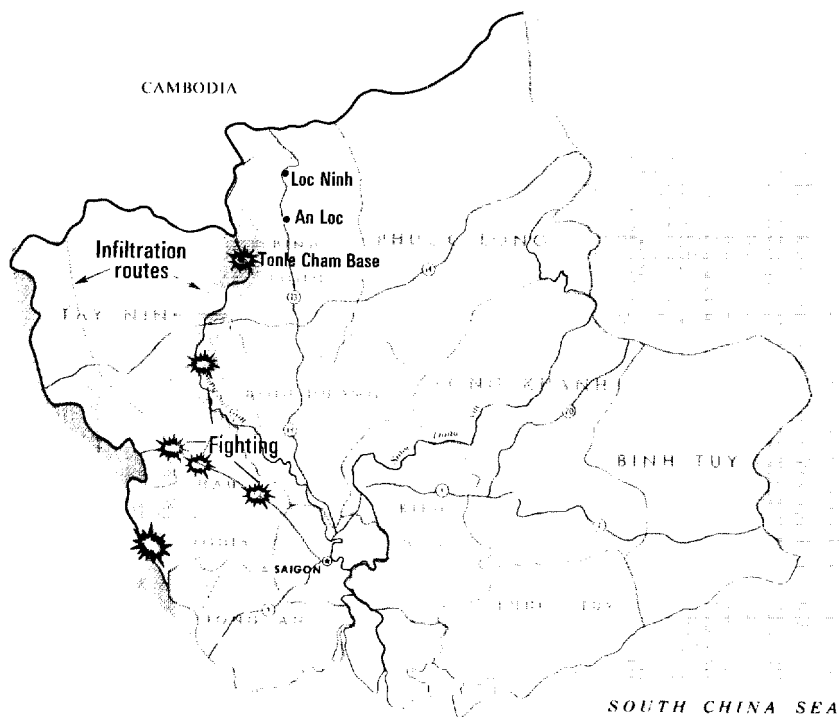
CAMBODIA: Khmer Communist ground attacks have slackened around Kampot City in the past few days, but it remains under heavy siege. Communist gunners are still blockading Kampot's main outlet to the sea and are shelling government positions daily. Government morale, however, is holding up. Reinforcements continue to work their way overland from the coast, and the air force is providing effective support.

The Communists have been keeping heavy pressure on Kampot for over a month now, and the steady expenditure of ammunition and supplies may be taxing their logistic system. Moreover, insurgent units presently at Kampot have been involved in fighting on other fronts this dry season and they may be tiring. There is no evidence, however, that the Communists are giving any serious thought to abandoning their campaign to take the city.

Combat elsewhere in the country has been limited to light skirmishing on the Oudong front northwest of Phnom Penh and along the Bassac River southeast of the capital. The Cambodian Army's 7th Division, which is manning Phnom Penh's northwestern defenses, has been placed on alert in anticipation of insurgent attacks during the Cambodian New Year holidays this weekend. [REDACTED]



MILITARY REGION 3



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SOUTH VIETNAM: The Tonle Cham base, which fell yesterday after heavy Communist attacks, had been under siege for over a year. It was the last government position within the important Communist infiltration corridors northwest of Saigon.

Initial reports indicate that some of the Rangers at Tonle Cham are working their way back to friendly lines near An Loc. Government artillery fire is being directed into the base area to aid the escape of other Rangers. In retaliation for the capture of Tonle Cham, the government has carried out air strikes against the base and Loc Ninh, the most important Communist-controlled town in southern South Vietnam.

Communist activity in the general area northwest of Saigon has been intensifying since late March. At that time, elements of three Communist mainforce divisions shifted into the area and increased the pressure on government units--an apparent reaction to successful government clearing operations. This pressure has forced the government to cancel smaller scale maneuvers north and east of the capital in order to reinforce the threatened area in the northwest.

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IRELAND-EC: A recent report in a prestigious Irish journal, Banking Review, highlights the benefits the Republic has realized from its first year of membership in the EC. Agriculture has prospered significantly, new industry has been attracted from Europe, overdependence on the British market has declined, and Ireland has been the beneficiary of various EC funds.

Ireland's industrial growth reached a rate of 11 percent in 1973, more than double the rate for the previous year, according to the article. Employment in manufacturing increased in 1973, following three years of stagnation. Furthermore, the increase occurred in modern, highly technical fields that more than offset the slight decline in the relatively obsolete manufacturing sectors, such as textiles and footwear. The report suggests that membership in the EC was responsible for the growth of production in the new industries, while competition from the UK caused the decline in the older industries.

Trade with the original six EC countries rose from 10 percent of total Irish exports in 1971 to 25 percent in 1973. This was accompanied by a drop in exports to the UK from 66 percent in 1971 to 53 percent in 1973, an important boost for diversification of Irish exports.

Foreign investment from the continent and the US accelerated, especially in the less-developed regions of the Republic. The Banking Review article discounts charges that the EC was responsible for the higher rate of inflation, which reached 11 percent last year, and puts most of the blame on higher wages and the steep rise in costs of energy and other commodities.

The benefits for Dublin contrast with London's problems with the EC. Although the Irish view with some concern the British desire to "renegotiate"

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their terms of membership in the EC, the economic benefits to Ireland of EC membership suggest that there are limits to the degree of change in the community Dublin would favor in order to keep the British from withdrawing. An indication of the importance Ireland attaches to relations with the continent may be reflected in the choice of Hugh McCann, a leading Irish diplomat, as ambassador to Paris.

[REDACTED]

EASTERN EUROPE: Drought conditions pose a threat to 1974 agricultural prospects, especially the important winter wheat crop. If the drought continues, next year's grain imports for the six East European countries could be well above the 8.1 million tons estimated for 1974.

At the end of March, soil moisture was from 13 to 45 percent below normal throughout Eastern Europe, with Romania and Hungary the hardest hit. Unless rainfall is normal in April and May, sharp reductions in yields of winter grain and forage crops can be expected. Rain is also urgently needed for germination and early development of spring-planted crops.

[REDACTED]

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VENEZUELA: Because of weakening oil prices, the Perez government has decided to postpone indefinitely receiving royalty payments in oil instead of cash. The government moved in this direction last week when it informed the oil companies that it wanted only 30,000 barrels per day of royalty oil instead of 100,000 b/d, a clear indication that Caracas is having trouble selling oil at prices comparable to the average tax reference value, about \$14 a barrel.

Venezuela traditionally has accepted cash payments for royalty oil, which currently totals about 500,000 b/d. The law provides, however, that the government can require payment in kind after giving a 90-day notice. At the height of the oil crisis, the previous government was besieged by offers to buy oil but had little at its disposal. Caracas therefore notified the companies in January that it intended to take 100,000 b/d of crude oil as part of its royalty payment.

Late last month the Venezuelan petroleum minister denied that Caracas was having difficulty selling royalty oil. He claimed that Venezuela had received requests from the Mexican and Peruvian state oil companies and was expecting orders from the Brazilian state company. It now appears that only the Mexican and Peruvian companies are still actively negotiating.

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Afghanistan-USSR: Kabul is slated to receive in the near future at least one more squadron of Soviet MIG-21 jet fighters, according to defense attaché sources. Kabul's inventory of MIG-21s currently stands at 33, including two delivered last month as replacements for aircraft destroyed in accidents. [REDACTED]

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Italy: Trade figures for January, just released by Rome, indicate a \$760-million deficit, nearly double the level for the same month a year ago. Higher oil prices are generally not reflected in these figures since most of January's oil deliveries were en route when prices were raised. Italy is likely to run an \$11-billion trade deficit for this year. [REDACTED]

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